



General Assembly

**Substitute Bill No. 7340**

January Session, 2019



**AN ACT CONCERNING THE USE OF VEIL PIERCING TO DETERMINE THE PERSONAL RESPONSIBILITY OF AN INTEREST HOLDER OF A DOMESTIC ENTITY FOR THE DEBTS, OBLIGATIONS OR OTHER LIABILITIES OF SUCH ENTITY AND THE RESPONSIBILITY OF A DOMESTIC ENTITY FOR THE DEBTS, OBLIGATIONS OR OTHER LIABILITIES OF AN INTEREST HOLDER OF SUCH ENTITY.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage and applicable to any civil*  
2 *action filed on or after the effective date of this section*) As used in this  
3 section and sections 2 and 3 of this act:

4 (1) "Affiliate" means with respect to any specified person, any other  
5 person directly or indirectly controlling, controlled by or under  
6 common control with such specified person. As used in this  
7 subdivision, "control" has the same meaning given to that term in 17  
8 CFR 240.12b-2, as amended from time to time;

9 (2) "Domestic entity" means an entity whose internal affairs are  
10 governed by the law of this state;

11 (3) "Entity" means (A) a business corporation, (B) a nonstock  
12 corporation, (C) a limited liability partnership, (D) a limited  
13 partnership, including a limited liability limited partnership, (E) a  
14 limited liability company, or (F) any other person that (i) has a separate  
15 legal existence, and (ii) is subject to a provision of the general statutes

16 which provides that an interest holder of such person is not personally  
17 liable for a debt, obligation or other liability of such person solely by  
18 reason of being or acting as such interest holder;

19 (4) "Governance interest" has the same meaning as provided in  
20 section 34-600 of the general statutes;

21 (5) "Governor" has the same meaning as provided in section 34-600  
22 of the general statutes;

23 (6) "Interest" means (A) a governance interest in an entity, (B) a  
24 transferable interest in an entity, or (C) a share, membership interest or  
25 other ownership interest in an entity;

26 (7) "Interest holder" has the same meaning as provided in section 34-  
27 600 of the general statutes;

28 (8) "Person" has the same meaning as provided in section 34-600 of  
29 the general statutes; and

30 (9) "Transferable interest" has the same meaning as provided in  
31 section 34-600 of the general statutes.

32 Sec. 2. (NEW) (*Effective from passage and applicable to any civil action*  
33 *filed on or after the effective date of this section*) (a) A statutory limitation  
34 on the liability of an interest holder of a domestic entity for a debt,  
35 obligation or other liability of such domestic entity, including without  
36 limitation, the limitation set forth in section 33-673 or 34-251a of the  
37 general statutes, may not be disregarded based upon a veil piercing  
38 doctrine, claim or remedy in connection with a transaction to which  
39 the entity is a party, unless a court finds by clear and convincing  
40 evidence that: (1) The interest holder exerted complete domination and  
41 control over the management, finances, policies and activities of such  
42 entity with respect to such transaction; (2) such domination and  
43 control was used by the interest holder to (A) commit fraud or other  
44 intentional wrong against the person asserting such doctrine, claim or  
45 remedy, (B) intentionally violate a statutory or common law duty to

46 such person, or (C) commit a deceitful or other unlawful act against  
47 such person; and (3) the domination and control exerted by the interest  
48 holder and the breach of duty or other act proximately caused injury or  
49 loss to the person asserting such doctrine, claim or remedy.

50 (b) In making a determination under subdivision (1) of subsection  
51 (a) of this section, a court shall consider factors that include, but are not  
52 limited to, whether: (1) The entity was adequately capitalized, (2)  
53 assets of the entity were distributed or otherwise transferred from the  
54 entity to the interest holder or any affiliate of such interest holder  
55 without any lawful business purpose, (3) there were overlapping  
56 interest holders, governors or other management personnel between  
57 the entity and the interest holder or any affiliate of such interest  
58 holder, (4) the interest holder or any affiliate of such interest holder  
59 shared office spaces, addresses and telephone numbers with the entity  
60 without payment of fair consideration, (5) transactions involving the  
61 entity and the interest holder or any affiliate of such interest holder  
62 were at arm's length and for fair consideration, (6) funds of the entity  
63 were commingled with funds of the interest holder or any affiliate of  
64 such interest holder, (7) the entity was treated as a separate legal entity  
65 for financial and other business purposes as evidenced by having its  
66 own contractual relationships, bank accounts, books of account and  
67 financial statements, (8) the entity was insolvent or rendered insolvent  
68 by the acts of the interest holder or any affiliate of such interest holder,  
69 and (9) the property of the entity was used by the interest holder or  
70 any affiliate of such interest holder without payment of fair  
71 consideration.

72 (c) The burden of proof shall be on the person seeking to hold the  
73 interest holder of a domestic entity responsible for the debts,  
74 obligations or other liabilities of such entity.

75 (d) The failure of a domestic entity to observe formalities relating to  
76 the exercise of its powers or the management of its activities and  
77 affairs is not grounds for imposing personal liability on an interest  
78 holder of such entity for a debt, obligation or other liability of such

79 entity based upon a veil piercing doctrine, claim or remedy.

80 (e) When determining whether a statutory limitation on the liability  
 81 of an interest holder of a domestic entity for a debt, obligation or other  
 82 liability of such domestic entity, including without limitation, the  
 83 limitation set forth in section 33-673 or 34-251a of the general statutes,  
 84 may be disregarded based upon on a veil piercing doctrine, claim or  
 85 remedy, a court shall make such determination exclusively in  
 86 accordance with the provisions of this section and section 1 of this act.

87 Sec. 3. (NEW) (*Effective from passage and applicable to any civil action*  
 88 *filed on or after the effective date of this section*) No domestic entity shall be  
 89 responsible for a debt, obligation or other liability of an interest holder  
 90 of such entity based upon a reverse veil piercing doctrine, claim or  
 91 remedy.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage and applicable to any civil action filed on or after the effective date of this section</i>	New section
Sec. 2	<i>from passage and applicable to any civil action filed on or after the effective date of this section</i>	New section
Sec. 3	<i>from passage and applicable to any civil action filed on or after the effective date of this section</i>	New section

**Statement of Legislative Commissioners:**

In Section 1, the definition of "control" was included in Subdivision (1) and the remaining subdivisions were renumbered accordingly for consistency with standard drafting conventions.

**JUD**      *Joint Favorable Subst.*